

ORIGINAL



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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

Date: April 21, 2006

RE: STAFF REPORT FOR E. H. LEWIS DBA SONOITA VALLEY WATER COMPANY – APPLICATION FOR TRANSFER OF ITS ASSETS AND CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE TO SONOITA VALLEY WATER COMPANY, AN ARIZONA CORPORATION (DOCKET NO. W-04199A-05-0905 AND W-20435A-05-0905)

Attached is the Staff Report for E. H. Lewis dba Sonoita Valley Water Company application for transfer of its Assets and Certificate of Convenience and Necessity for water service to Sonoita Valley Water Company. Staff is recommending approval with conditions.

EGJ:BNC:tdp

Originator: Blessing Chukwu

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Docket No. W-04199A-05-0905 and W-20435A-05-0905

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

E. H. LEWIS DBA SONOITA VALLEY WATER COMPANY

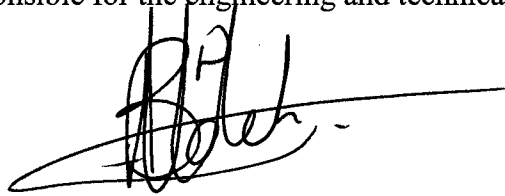
DOCKET NOS. W-04199A-05-0905 AND W-20435A-05-0905

APPLICATION FOR TRANSFER
OF ITS ASSETS AND CERTIFICATE OF
CONVENIENCE AND NECESSITY TO SONOITA VALLEY WATER COMPANY, AN
ARIZONA CORPORATION

APRIL 21, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for E. H. Lewis dba Sonoita Valley Water Company (Docket Nos. W-04199A-05-0905 and W-20435A-05-0905) was the responsibility of the Staff members signed below. Blessing Chukwu was responsible for the review and analysis of the Company's application. Del Smith was responsible for the engineering and technical analysis.

A handwritten signature in black ink, appearing to read 'B. Chukwu', with a long horizontal stroke extending to the right.

Blessing Chukwu
Executive Consultant

A handwritten signature in black ink, appearing to read 'Del Smith', with a long horizontal stroke extending to the right.

Del Smith
Utilities Engineer Supervisor

EXECUTIVE SUMMARY
E. H. LEWIS DBA SONOITA VALLEY WATER COMPANY APPLICATION FOR
TRANSFER OF ITS ASSETS AND CERTIFICATE OF CONVENIENCE AND
NECESSITY TO SONOITA VALLEY WATER COMPANY, AN ARIZONA
CORPORATION
DOCKET NOS. W-04199A-05-0905 AND W-20435A-05-0905

On December 16, 2005, E. H. Lewis dba Sonoita Valley Water Company ("SVWC-Lewis" or "Company" or "Transferor") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for transfer of its assets and Certificate of Convenience and Necessity ("CC&N") to Sonoita Valley Water Company, an Arizona Corporation. On February 24, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the Arizona Administrative Code.

SVWC-Lewis provides water service to approximately 40 customers in a portion of Santa Cruz County, Arizona. By this application, the Company is seeking Commission authority to transfer its assets and CC&N to Sonoita Valley Water Company ("SVWC-Corporation"), an Arizona Corporation, in good standing with the Commission's Corporation Division, formed by Mr. Lewis for the purpose of transferring SVWC-Lewis' assets and CC&N from sole proprietorship to a corporation. The Company's CC&N area is approximately 240 acres and is located in Section 31 of Township 20 South, Range 17 East. Southwest Utility Management, Inc. has been managing SVWC-Lewis since May of 2003 and will continue to manage and operate the water system after the transfer. Certified operator personnel will not change as a result of the transfer.

Staff recommends the Commission approve SVWC-Lewis' application to transfer its assets and CC&N for water service, within portions of Santa Cruz County, Arizona, to SVWC-Corporation, subject to compliance with the following conditions:

1. To require SVWC-Corporation to charge SVWC-Lewis' authorized rates and charges in the transfer area.
2. To require SVWC-Corporation to file with Docket Control, as a compliance item in this docket, a copy of Santa Cruz County franchise agreement for the transfer area within 365 days of the decision in this matter.
3. To require SVWC-Corporation to file its 2003 Annual Report within 30 days of the decision in this matter. If the Company fails to file its 2003 Annual Report within the time specified, Staff may file a complaint and Order to Show Cause which may result in the cancellation of the Company's CC&N or payment of fine.

Staff further recommends that the Commission's Decision granting the transfer of assets and CC&N to SVWC-Corporation be considered null and void, after due process, should SVWC-Corporation fail to meet Condition No. 2 listed above within the time specified.

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Introduction

On December 16, 2005, E. H. Lewis dba Sonoita Valley Water Company ("SVWC-Lewis" or "Company" or "Transferor") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for transfer of its Assets and Certificate of Convenience and Necessity ("CC&N") to Sonoita Valley Water Company, an Arizona Corporation.

On January 13, 2006, the ACC Utilities Division ("Staff") filed an Insufficiency Letter, indicating that the Company's application did not meet the sufficiency requirements of Arizona Administrative Code ("A.A.C.") R14-2-402(C). A copy of the Insufficiency Letter was sent to the Company via U.S mail. In the Letter, Staff listed the deficiencies that needed to be cured for administrative purposes.

On January 26, 2006, and January 30, 2006, the Company provided additional documentation to support its relief requested.

On February 24, 2006, Staff filed a Sufficiency Letter indicating that the application had met the sufficiency requirements of the A.A.C.

Background

E. H. Lewis dba Sonoita Valley Water Company is a sole proprietorship that provides water utility service to approximately 40 customers in Papago Springs, a 55 lot Subdivision near Sonoita, in Santa Cruz County, Arizona. Sonoita is located approximately 30 miles northeast of Nogales on State Highway 82. The Commission approved the original CC&N for the Company in Decision No. 46061, issued on May 12, 1975. On March 25, 2003, Staff filed a Complaint and Petition for an Order to Show Cause ("OSC") against Sonoita Valley Water Company (a Sole Proprietorship) under the ownership of Mr. Michael Ronstadt. Staff alleged in the OSC, among other things, that Sonoita Valley Water Company, under the ownership of Mr. Michael Ronstadt, had a history of water shortage problems (inadequate water quantity or pressure) and that Mr. Ronstadt had not taken action to correct the system's inadequacies. (See Decision Nos. 57880 (June 3, 1992), 58762 (August 31, 1994), and 64892 (June 5, 2002)). On April 25, 2003, the Commission issued Decision No. 65858, ordering, among other things, that Staff appoint an interim manager for the system. On or about May 12, 2003, Staff entered into an Interim Management Agreement with Southwestern Utility Management, Inc. ("SUM") to act as interim manager of Sonoita Valley Water Company. SUM was owned and operated by Mr. E. H. "Buck" Lewis.

On August 5, 2003, Sonoita Valley Water Company, under the ownership of Mr. Michael Ronstadt, filed an application with the Commission to approve the sale of its assets and transfer of its CC&N to Mr. Lewis. On January 20, 2004, the Commission issued Decision No. 66731 approving the sale of assets and transfer of CC&N to Mr. Lewis.

The Water System

According to the Company's 2005 Annual Report, the Company's water system consists of two active wells, one booster pump, two 10,000 gallon storage tanks, one pressure tank, and distribution system. The two active wells have a combined production of 17 gallons per minute. The System has adequate capacity to serve the existing customer base and a reasonable level of growth. The Company has experienced minimal growth in recent years.

SUM has been managing SVWC-Lewis since May of 2003 and customer complaints have declined dramatically since SUM took over the management of the Company. SUM will continue to manage and operate the water system after the transfer. Certified operator personnel will not change as a result of the transfer.

The Transaction

SVWC-Lewis provides water service to approximately 40 customers in a portion of Santa Cruz County, Arizona. By this application, the Company is seeking Commission authority to transfer its assets and CC&N to Sonoita Valley Water Company ("SVWC-Corporation"), an Arizona Corporation, in good standing with the Commission's Corporation Division, formed by Mr. Lewis for the purpose of transferring SVWC-Lewis' assets and CC&N from sole proprietorship to a corporation. The Company's CC&N area is approximately 240 acres and is located in Section 31 of Township 20 South, Range 17 East.

According to the application, all customer security deposits will be transferred to the Transferee; all refunds due on meter and line installations will be assumed by the Transferee; and there are no refunds due on any main extension agreements.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the Company's water system under ADEQ Public Water System No. 12-005. ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.¹

Arizona Department of Water Resources ("ADWR") Compliance

The Company is not located in an Active Management Area ("AMA") and subsequently is not subject to ADWR reporting and conservation rules.

ACC Compliance

Pursuant to Arizona Revised Statutes Section 40-204 and Arizona Administrative Code R14-2-411.D.4, R14-2-510.G.4, R14-2-610.D.4., R14-2-907.A., R14-2-1011.A., and R14-2-

¹ ADEQ Drinking Water Compliance Status Report dated 12-15-05.

1115.F., all public service corporations in Arizona are required to file an Annual Report on or before April 15 of each year. According to the Utilities Division's Compliance Section, the Company has not filed its 2003 Annual Report. Mr. Lewis only owned the Company for half of 2003 and has been notified to file the Annual Report for the last half of 2003. The Company has informed the Compliance Section that it would file its 2003 Annual Report by April 21, 2006. The Company has filed its 2004 and 2005 Annual Reports and is current in its property tax payments.

Staff recommends that the Company be required to file its 2003 Annual Report within 30 days of the decision in this matter. If the Company fails to file its 2003 Annual Report within the time specified, Staff may file a complaint and Order to Show Cause which may result in the cancellation of the Company's CC&N or payment of fine.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter ("µg/l") or parts per billion ("ppb") to 10 µg/l. The date for compliance with the new MCL is January 23, 2006. The level of arsenic reported by the Company for its wells complies with the new arsenic standard of 10 micrograms per liter.²

Curtailment Plan Tariff

A Curtailment Plan Tariff ("CPT") is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events.

The Company has a curtailment tariff on file with the Utilities Division.

Proposed Rates

SVWC-Corporation will provide water service to the transfer area under SVWC-Lewis' authorized rates and charges.

County Franchise

Every applicant for a CC&N and/or CC&N Transfer is required to submit to the Commission evidence showing that the applicant has received the required consent, franchise or permit from the proper authority. If the applicant operates in an unincorporated area, the company has to obtain the franchise from the County. If the applicant operates in an incorporated area of the County, the applicant has to obtain the franchise from the City/Town.

² Information reported in the Company's 2005 Commission Annual Report.

The Company filed, in the docket, a copy of its Santa Cruz County franchise agreement. The franchise agreement was issued on February 4, 1974, by the Board of Supervisors of Santa Cruz County for a term of 25 years. The franchise agreement has expired, of which the Company is aware and is in the process of obtaining or renewing the franchise agreement. As such, Staff recommends that SVWC-Corporation be required to file with Docket Control, as a compliance item in this docket, a copy of Santa Cruz County franchise agreement for the transfer area within 365 days of the decision in this matter.

Recommendations

Staff recommends the Commission approve SVWC-Lewis' application to transfer its assets and CC&N for water service, within portions of Santa Cruz County, Arizona, to SVWC-Corporation, subject to compliance with the following conditions:

1. To require SVWC-Corporation to charge SVWC-Lewis' authorized rates and charges in the transfer area.
2. To require SVWC-Corporation to file with Docket Control, as a compliance item in this docket, a copy of Santa Cruz County franchise agreement for the transfer area within 365 days of the decision in this matter.
3. To require SVWC-Corporation to file its 2003 Annual Report within 30 days of the decision in this matter. If the Company fails to file its 2003 Annual Report within the time specified, Staff may file a complaint and Order to Show Cause which may result in the cancellation of the Company's CC&N or payment of fine.

Staff further recommends that the Commission's Decision granting the transfer of assets and CC&N to SVWC-Corporation be considered null and void, after due process, should SVWC-Corporation fail to meet Condition No. 2 listed above within the time specified.

MEMORANDUM

DATE: April 12, 2006

TO: Blessing Chukwu

FROM: Del Smith *DS*

RE: Application of Sonoita Valley Water Company for approval of the transfer of its assets and Certificate of Convenience and Necessity to Sonoita Valley Water Company, an Arizona Corporation (Docket Nos. W- 04199A-05-0905 and W-20435A-05-0905)

Introduction

Sonoita Valley Water Company ("SVWC" or "the Company") has applied to transfer its assets and Certificate of Convenience and Necessity ("CC&N") to Sonoita Valley Water Company, an Arizona Corporation. SVWC provides water utility service to approximately 40 customers in Papago Springs, a 55 lot Subdivision near Sonoita, in Santa Cruz County, Arizona. Sonoita is located approximately 30 miles northeast of Nogales on State Highway 82. The Arizona Corporation Commission ("ACC") granted the Company a CC&N in Decision No. 46061 dated May 12, 1975. The Company's CC&N covers an area roughly 240 acres in size in Section 31 of Township 20 South, Range 17 East.

Sonoita Water System

The Company's system consists of two active wells, one booster pump, two 10,000 gallon storage tanks, one pressure tank and distribution system. The two active wells have a combined production of 17 gallons per minute.¹ The System has adequate capacity to serve the existing base of customers and a reasonable level of growth. The Company has experienced minimal growth in recent years.

Southwest Utility Management, Inc. ("SUM") has been managing SVWC since May of 2003. Prior to this time the ACC had received numerous complaints from customers about the poor service SVWC was providing. Customer complaints have declined dramatically since SUM took over the management of SVWC. SUM will continue to manage and operate the water system after the transfer. Certified operator personnel will not change as a result of the transfer.

¹ Information reported in the Company's 2005 Commission Annual Report.

Arizona Department of Environmental Quality (“ADEQ”) Compliance

ADEQ regulates the SVWC water system under ADEQ Public Water System No. 12-005. ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.²

The level of arsenic reported by the Company for its wells complies with the new arsenic standard of 10 micrograms per liter that became effective on January 23, 2006.³

Arizona Department of Water Resources (“ADWR”) Compliance

SVWC is not within any Active Management Area, and consequently is not subject to ADWR reporting and conservation rules.

ACC Compliance and Curtailment Tariff

A check of the Utilities Division compliance database indicated that there are no delinquencies for SVWC.⁴ The Company has an approved Curtailment Tariff.

Conclusions

1. The System has adequate capacity to serve the existing base of customers and a reasonable level of growth.
2. Customer complaints have declined dramatically since SUM took over the management of SVWC. SUM will continue to manage and operate the water system after the transfer. Certified operator personnel will not change as a result of the transfer.
3. The SVWC system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
4. The level of arsenic in SVWC’s water complies with the new arsenic standard.
5. SVWC has no ACC compliance deficiencies.

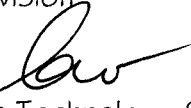
² ADEQ Drinking Water Compliance Status Report dated 12-15-05.


³ Information reported in the Company’s 2005 Commission Annual Report.

⁴ Per Compliance Section email dated 12-27-05.

MEMORANDUM

TO: Blessing Chukwu
Executive Consultant III
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: January 13, 2006

RE: **SONOITA VALLEY WATER COMPANY (DOCKET NO. W-04199A-05-0905)**
SONOITA VALLEY WATER COMPANY (DOCKET NO. W-20435A-05-0905)

Sonoita Valley has filed an application to transfer from a sole proprietorship to an Arizona corporation.

Attached is a copy of the map for your files.

:bsw

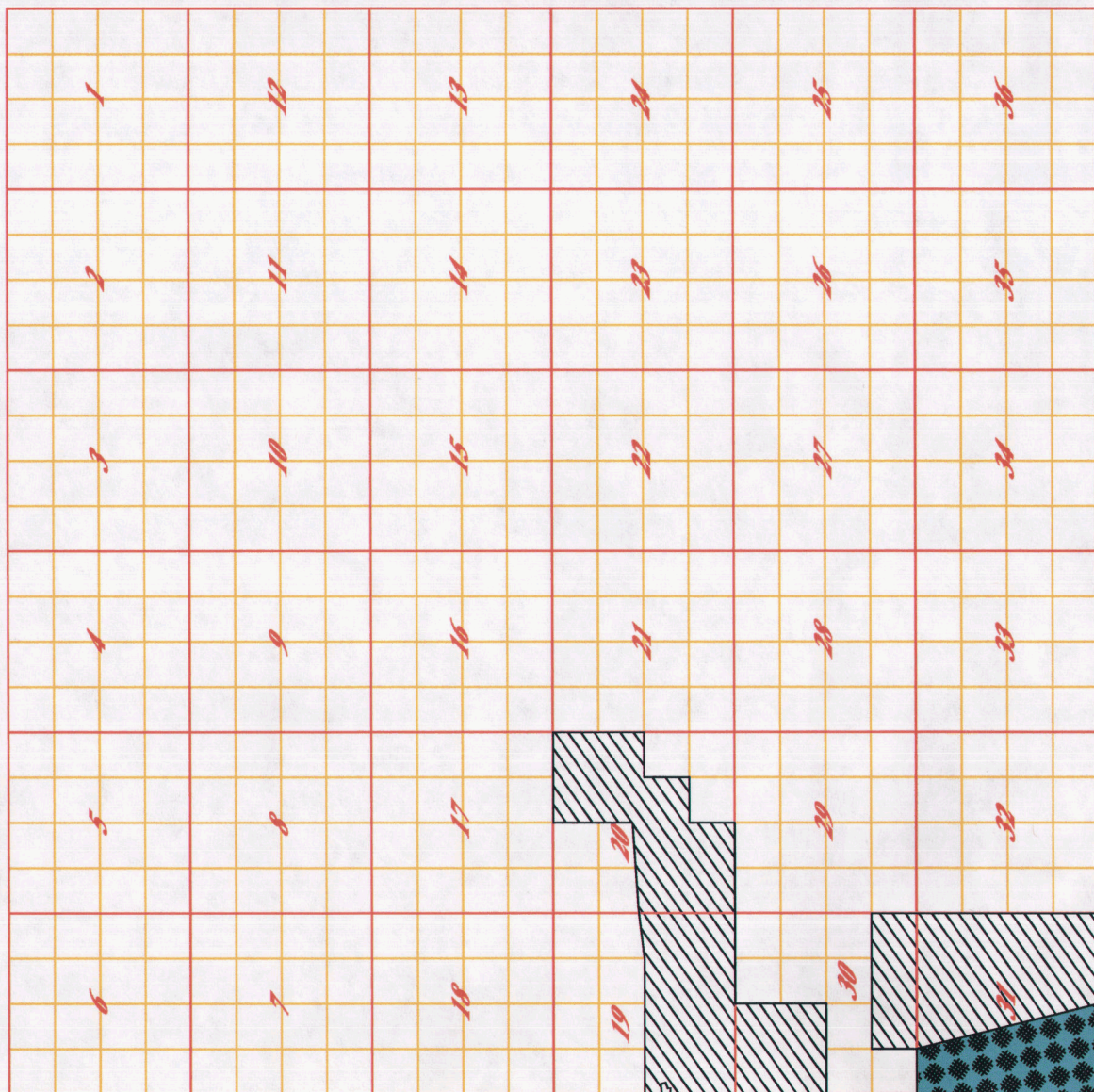
Attachments


cc: Docket Control
Mr. E. H. Lewis
Southwestern Utility Management
Ms. Deb Person (Hand Carried)
File


COUNTY Santa Cruz


RANGE 17 East

TOWNSHIP 20 South



 W-4199 (1)
Sonoita Valley Water Company

 W-2017 (2)
Southern Water Corporation

 Sonoita Valley Water Company
Docket No. W-04199A-05-0905
Application to Transfer CC&N
from Sole Proprietorship to
an Arizona Corporation